

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-13 CIAE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
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E.O. 11652: N/A
TAGS: PFOR, CY, TU, EALR
SUBJECT: TURK CYPRIOT ECONOMY

REF: 76 NICOSIA 2417 (DTG 191330Z AUG 76)

1. SUMMARY: BASIC ECONOMIC TRENDS NOTED IN REFTEL CONTINUE:
TURKISH CYPRIOT ECONOMY REMAINS FACED WITH SEVERE PROBLEMS;
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MASSIVELY DEPENDENT ON TURKEY FOR FOREIGN TRADE, TECHNICAL AND
FINANCIAL ASSISTANCE, AND COMMUNICATIONS; BUT AFLOAT AND UNSTEADILY
ON COURSE TOWARD A GREATER VIABILITY. IMPROVEMENT, THOUGH,
HAS BEEN SLOW, HALTING, AND MORE OFTEN THAN NOT OBSCURED BY
HARSH AND OFTEN JUSTIFIED COMPLAINTS IN THE PRESS, LEGISLATIVE
ASSEMBLY, AND COMMUNITY AT LARGE OF UNCHECKED INFLATION,
NEW TAXES, GOVERNMENT INEPTITUDE AND WASTE, LACK OF PLANNING,

STAGNANT INDUSTRY, LAND DISTRIBUTION INEQUITIES, AND PROFITEERING.

2. MODEST PROGRESS.

A. INFRASTRUCTURAL GAINS (REFTEL) -- TELEPHONES, TRANSPORT, ROAD, AIRPORT, POWER -- REMAIN THE MOST VISIBLE SIGNS OF IMPROVEMENT AS WELL AS THE SINE QUA NON OF FURTHER DEVELOPMENT. FOREIGN TRADE GAP HAS WIDENED, BUT "TFSC" OFFICIALS SAY AGRICULTURAL EXPORTS DOUBLED IN 1976 (TO ROUGHLY \$11 MILLION); INDUSTRIAL EXPORTS NUDGED UPWARD (TO \$3.8 MILLION); AND PERCENTAGE OF IMPORTS FROM TURKEY DECLINED FROM 64 PERCENT IN 1975 TO ROUGHLY 50 PERCENT IN 1976. FIRST FRESH FRUIT AND VEGETABLE EXPORTS BY AIR TO UK HAVE TAKEN PLACE AND ARRANGEMENTS ARE NOW BEING NEGOTIATED WITH ICELANDIC AIRWAYS, A NON-IATA MEMBER NOT ENJOINED FROM USING ERCAN AIRPORT IN THE NORTH, TO FLY CARGO ON A REGULAR BASIS. SHIPPING PROBLEMS REMAIN, BUT HAVE BEEN EASED BY A 20 PERCENT INCREASE IN FOREIGN MERCHANT SHIP VISITS (132 IN 1976). TENDERS FOR CITRUS JUICE PROCESSING PLANT (TO MAKE USE OF NON-EXPORTABLE INDUSTRIAL CITRUS WHICH TURKEY CANNOT ABSORB AND WHICH GOC WILL NOT PERMIT GREEK PROCESSORS TO PURCHASE) HAVE BEEN INVITED BY "TFSC", DRAWING RESPONSE FROM AT LEAST TWO US FIRMS AS WELL AS COMPANIES IN BRITAIN, GERMANY, DENMARK, AND SWEDEN.

B. LESS VISIBLE BUT NO LESS IMPORTANT, TURKISH CYPRIOTS ARE GRADUALLY EXPANDING THEIR CONTACTS ABROAD, OVERCOMING GREEK EFFORTS TO HINDER "TFSC" TRADE, GAINING MARKETING AND PURCHASING EXPERIENCE, MAKING COSTLY MISTAKES, AND TRYING TO LEARN FROM THEM. WHILE STILL OVERWHELMINGLY DEPENDENT ON TURKEY FOR FINANCIAL AND TECHNICAL ASSISTANCE, TURKISH CYPRIOTS ARE LIMITED OFFICIAL USE

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ECONOMICALLY MORE ON THEIR OWN THAN EVER BEFORE, CONSCIOUS OF THEIR RESPONSIBILITY TO EXPLOIT NEW ECONOMIC OPPORTUNITIES AND PROVE THEY CAN STAND ON THEIR OWN FEET. ENERGIES WHICH PREVIOUSLY HAD BEEN ABSORBED BY PROBLEMS OF RESETTLING OVER 50,000 DISPLACED TURKISH CYPRIOTS AND SETTING UP NEW STATE APPARATUS AND LAWS OVER LAST TWO YEARS, ARE NOW INCREASINGLY FOCUSED ON PRODUCTION AND EXPORT PROBLEMS.

C. TO ENCOURAGE MORE RATIONAL USE OF RESOURCES, "TFSC" HAS DRAWN UP ECONOMIC PLAN FOR 1977 (WHICH IT REGARDS AS A TRANSITIONAL YEAR) AND IS NOW WORKING ON A 5-YEAR PLAN TO BEGIN IN 1978. A VOCAL IF SOMEWHAT AMATEUR LEGISLATIVE ASSEMBLY HAS THROUGH ITS VIGOROUS CRITICISM OF INEPT PUBLIC ENTERPRISES AND BUREAUCRATIC FUMBLING KEPT HEAT ON "TFSC" TO REMEDY MISTAKES WHICH LAST YEAR LED TO LOW PRODUCTION, EXTENSIVE SPOILAGE OF EXPORT PRODUCE, NON-PAYMENT OF PRODUCERS, AND WASTEFUL COMPETITION BETWEEN STATE-OWNED EXPORT ORGANIZATIONS. AS A RESULT, INCREASED CREDITS ARE NOW AVAILABLE TO PRODUCERS; EDUCATION IN PRODUCTION, PICKING, PACKING TECHNIQUES HAS BEEN

STEPPED UP; AND EXPORT RESPONSIBILITIES HAVE BEEN CENTRALIZED
IN ETI (STATE-OWNED IMPORT-EXPORT FIRM).

3. EXPORTS

A. AGRICULTURAL EXPORTS, ACCORDING TO "TFSC" STATISTICS NOW
AVAILABLE FOR THE FIRST TIME (IN ITSELF A MEASURE OF "TFSC'S"
INCREASED CONFIDENCE AND ECONOMIC STABILIZATION), ROSE FROM
TL 82.5 MILLION (TL 16 EQUALS \$1) IN 1975 TO TL 174 MILLION IN
1976 (ROUGHLY \$11 MILLION). OF THIS AMOUNT, CITRUS ACCOUNTED FOR
\$6-8 MILLION, POTATOES \$2-3 MILLION, AND CARROTS AND FRESH
VEGETABLES THE REMAINDER. CURRENT PLANS ENVISION ANOTHER
DOUBLING OF AGRICULTURAL EXPORTS IN 1977

B. INDUSTRIAL EXPORTS REMAINED LOW, REFLECTING CONTINUING DIF-
FICULTIES TURKISH CYPRIOTS HAVE HAD REACTIVATING INDUSTRY IN
THE NORTH, BUT INCHED UPWARD FROM TL 50 MILLION IN 1975 TO
TL 61 MILLION (ROUGHLY \$3.8 MILLION) IN 1976. READY-MADE CLOTHING,
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PLASTIC PRODUCTS, AND STEEL PIPING ACCOUNTED FOR MOST INDUSTRIAL
EXPORTS, WHICH LARGELY WENT TO ARAB COUNTRIES. FIVE-YEAR \$4.9 MIL-
LION CONTRACT WITH LIBYA FOR GALVANIZED STEEL PIPING, WE ARE
TOLD, HAS BEEN CONCLUDED, AND "TFSC" OFFICIALS ANTICIPATE THAT
IN 1977 EXPORTS OF PROCESSED MILK PRODUCTS, LIME, PLASTIC AND
METAL PRODUCTS WILL BRING INDUSTRIAL EXPORTS TO TL 150 MILLION.

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FM AMEMBASSY NICOSIA
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4. FOREIGN TRADE DEFICIT

A. IMPORTS NEARLY DOUBLED OVER PAST YEAR, PUSHING IMPORT BILL FROM TL 450 MILLION TO TL 891 MILLION AND LEAVING "TFSC" WITH TRADE DEFICIT OF TL 655 MILLION IN 1977. BY CONTRAST, 1975 DEFICIT TOTALED ONLY TL 298 MILLION. "TFSC" OFFICIALS ARE QUICK TO POINT OUT THAT 1975 IS NOT A GOOD YEAR TO USE AS A BASE OF COMPARISON, GIVEN UNSETTLED SITUATION THEN, AVAILABILITY OF LIMITED OFFICIAL USE

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GOODS LEFT BY GREEKS, AND IDLE INDUSTRIES. RISING IMPORT DEMAND, THEY ALSO NOTE, REFLECTS EXTENT TO WHICH ECONOMY IS REVIVING.

B. ACCORDING TO "TFSC", PERCENTAGE OF IMPORTS FROM TURKEY HAS DECLINED FROM 64 PERCENT IN 1975 TO ROUGHLY 50 PERCENT IN 1976. RELATIVE DECLINE REFLECTS GROWTH OF OVERALL IMPORTS, UNSUITABILITY OR UNAVAILABILITY OF TURKISH GOODS FOR TURKISH CYPRIOT MARKET, AND INCREASED LOCAL FOOD PRODUCTION. INCREASING SHARE OF IMPORTS FROM HARD CURRENCY AREAS HAS IN TURN MADE FOREIGN EXCHANGE A MAJOR BOTTLE NECK IN FURTHER DEVELOPMENT. OFFICIALS NOW ESTIMATE ANNUAL FOREIGN EXCHANGE REQUIREMENT AT \$30-40 MILLION, AND SAY THAT FOREIGN EXCHANGE GAP OF APPROXIMATELY \$15 MILLION HAS BEEN TEMPORARILY MET BY PERMITTING BUSINESSMEN TO IMPORT GOODS AS LONG AS THEY CAN ACQUIRE THE FOREIGN EXCHANGE. IN PRACTICE, THIS HAS MEANT DRAWING ON HARD-CURRENCY ACCOUNTS HELD BY TURKISH CYPRIOTS ABROAD (MAINLY IN THE UK) AND PURCHASING OF FOREIGN EXCHANGE AT PREMIUM PRICES.

5. TURKISH FINANCIAL ASSISTANCE

A. TURKISH COMMUNITY REMAINS CRUCIALLY DEPENDENT FOR ITS ECONOMIC SURVIVAL ON MAINLAND TURKISH ASSISTANCE. IN 1976 ALONE, TURKISH BUDGETARY ASSISTANCE TOTALED NEARLY TL 650 MILLION (40.6 MILLION) OR A WHOPPING 58 PERCENT OF THE ENTIRE "TFSC" BUD-

GET. ORIGINALLY, ONLY TL 450 MILLION HAD BEEN EARMARDED, BUT BECAUSE OF SHORT-FALLS IN CUSTOMS, TAX, AND OTHER REVENUE, TURKISH CYPRIOTS IN SEPTEMBER (SEE 76 NICOSIA 2792) WERE BAILED OUT WITH ADDITIONAL TL 200 MILLION IN CREDIT. AT SAME TIME, TURKEY GRANTED "TFSC" \$5 MILLION IN HARD CURRENCY, BRINGING TOTAL HARD CURRENCY GRANTS IN 1975 AND 1976 TO \$15 MILLION. TOTAL TURKISH ASSISTANCE IN 1976 THEREFORE WAS IN NEIGHBORHOOD OF \$45 MILLION. "TFSC"'S 1977 BUEGET, NOW BEING DISCUSSED BY ASSEMBLY, INDICATES PLANNED TURKISH ASSISTANCE IN 1977 HAS BEEN SET AT TL 425 MILLION. IN ADDITION, WE ARE PRIVATELY TOLD THAT TURKEY HAS TENTATIVELY PROMISED AN ADDITIONAL \$5 MILLION IN HARD CURRENCY IN 1976.

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B. MANY OBWERVERS, THOUGH, ARE SKEPTICAL THAT "TFSC" REVENUES WILL INCREASE ENOUGH TO MAKE SUPPLEMENTARY AID UNNECESSARY. NEVERTHELESS, IT SHOULD BE NOTED THAT AFTER MUCH FOOT-DRAGGING AND DESPITE PREDICTABLE OUTCRY FROM PUBLIC AND THE OPPOSITION, KONUK GOVERNMENT RAISED TAXES ON EVERYTHING FROM RADIOS TO DRIVER'S LICEMSES, INCREASED PRICES OF GOVERNMENT-CONTROLLED COMMODITIES (WHEAT, FUEL, ETC.), AND ENDED OTHER UNECONOMIC SUBSIDIZATION. (IT IS NOT, HOWEVER, HAD THE HEART OR COURAGE TO REDUCE THE CUMBERSOME AND COSTLY 8,000-MAN BUREAUCRACY WHOSE JOB, BY "PRIME MINISTER" KONUK'S OWN ADMISSION, CAN BE ACCOMPLISHED BY HALF AS MANY PEOPLE.).

6. PROSPECTS

ALL IN ALL, ASSUMING STABILITY ON THE ISLAND AND SUSTAINED TURKISH AID, TURKISH CYPRIOT ECONOMY SEEMS LIKELY TO CONTINUE ITS SLOW AND HALTING IMPROVEMENT. WHETHER, AS MANY "TFSC" OFFICIALS PREDICT, ECONOMY WILL SOON "TAKE-OFF" REMAINS OPEN QUESTION, SINCE ECONOMY WILL CONTINUE TO BE HAMPERED BY SAME PROBLEMS THAT HAVE DOGGED IT ALL ALONG -- STRUCTURAL IMBALANCE IN LABOR, LACK OF PRODUCTION AND MARKETING EXPERTISE, POLITICAL UNCERTAINTY, BUREAUCRATIC FUMBLING, FOREIGN EXCHANGE SHORTAGES, FINANCIAL CONSTRAINTS. INFLATION, WHICH HAS STEMMED FROM UNDER-PRODUCTION, PREMIUM PRICES PAID FOR HARD CURRENCY IMPORTS, AND PRICE RISES OF GOODS IMPORTED FROM TURKEY, IS ESTIMATED VARIOUSLY AT 25-40 PERCENT AND IS LIKELY TO BE CONTINUING ECONOMIC AND POLITICAL PROBLEM. PRIVATE PURCHASING POWER AND LIVING STANDARDS HAVE BEEN ERODED BY INFLATION, NEW TAXES, AND ELIMINATION OF VARIOUS SUBSIDIES. THIS DECLINE -- AND THE POLITICAL AND ECONOMIC RESTIVENESS IT ENGENDERS -- SEEMS LIKELY TO CONTINUE FOR SOME TIME TO COME. NEVERTHELESS, THERE APPEARS TO BE GENERAL CONFIDENCE IN TURKISH CYPRIOT COMMUNITY THAT ECONOMIC SITUATION WILL EVENTUALLY IMPROVE. HOW STUBBORN THAT CONFIDENCE IS, HOW HARD THE COMMUNITY WORKS TO INCREASE PRODUCTIVITY, HOW WILLING IT IS TO MAKE SACRIFICES NOW FOR THE SAKE OF FUTURE ECONOMIC VIABILITY WILL DETERMINE PACE OF

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Message Attributes

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